

Sunway Construction Group Berhad

TP: RM6.15 (+22.5%)

Awards RM416.8mn Sub-contract to JV Entity
Last Traded: RM5.02
Buy (ESG: ★★★★★)

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Awards RM416.8mn Sub-Contract Work to JV unit

Sunway Construction Group Bhd, which secured an RM747.8mn contract from a US multinational technology business to build a data centre in Selangor in March, awarded a RM416.8mn subcontract on Friday. According to Bursa filling, Sunway Engie DC Sdn Bhd, a joint venture between Sunway Engineering Sdn Bhd (70%) and Engie Services Malaysia Sdn Bhd (30%), won the mechanical and electrical (M&E) system subcontract.

ENGIE, a pioneer in the data centre construction industry, specialises in developing, owning, and operating district cooling, onsite solar, and onsite thermal energy facilities for the production of utilities. Additionally, ENGIE provides energy efficiency solutions as well as engineering, design, and installation services for data centre projects.

Currently, the project is progressing as scheduled and is expected to be completed by the end of the 2QCY27.

Our View

We are optimistic about this new project development, as we believe the joint venture partnership will contribute positively and synergistically, leveraging the technical expertise of SESB and ENGIE in the construction and M&E fields. Meanwhile, we anticipate SUNCON will benefit from this collaboration by enhancing its engineering solutions for managing sophisticated construction projects. This JV is expected to elevate SUNCON's capabilities and position it favourably for sophisticated projects in the future, subsequently capitalising on the robust advanced technology project (ATP) space.

To date, we estimate SUNCON's outstanding orderbook at approximately RM7.2bn, equivalent to 2.7x FY23 revenue.

Impact

No changes to our earnings forecasts, as there is no major impact on the earnings.

Valuation

We reiterate our target price of **RM6.15**, based on a 26x CY25 EPS and 3% ESG premium given our 4-star rating. We continue to like the stock due to the following reasons:- (i) SUNCON's strong position as a contender for mega infrastructure projects, namely MRT3, Johor ART and Penang LRT, (ii) strong earnings visibility on the back of a robust outstanding order book, and (iii) its leading position in securing more jobs in the thriving ATP industry. Maintain **Buy** call on the stock.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	6,472.6
52-wk Hi/Lo (RM)	5.15/1.68
12-mth Avg Daily Vol ('000 shrs)	2,318.5
Estimated Free Float (%)	20.5
Beta	1.1

Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 6.2
Amanah Saham Nasional Bhd	- 3.3

Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	195.3	294.6
Consensus	183.9	256.9
TA's / Consensus (%)	106.2	114.7
Previous Rating	Buy (Maintained)	
Consensus Target Price	4.40	

Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	61.5	60.2
CFPS (sen)	(8.8)	(6.2)
Price / CFPS (x)	(56.7)	(81.0)
ROA (%)	5.7	7.0
NTA/Share (sen)	72.2	84.2
Price/NTA (x)	7.0	6.0

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	27.1	2.3
3 mth	81.9	5.7
6 mth	129.2	10.1
12 mth	198.8	16.6

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure I: YTD Job Wins

Projects (2024 New Awards)	Client	Exp. Completion Date	Contract Sum (RM'mn)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services – Package A	Multinational technology company	Aug-24	34.0
Early Contractor Involvement (ECI) Services – Package B	Multinational technology company	Aug-24	26.0
Ulu Pandan CI & C2	CES Engineering & Construction Pte Ltd	Jun-27	103.0
Construction of Data Centre building	Multinational Technology Company	Apr-27	748.0
Bedok N2C23 – Watertanks	Precast Concrete Pte Ltd	Sept-25	3.0
LPS term contract batch 14	Housing and Development Board	Sept-25	82.0
101 Neythal Road Redevelopment	Founda Global Engineering Pte Ltd	Aug-25	6.0
SMC4 Phase 3 - Fit out works	Sunway Medical Centre Sdn Bhd	Jun-26	80.0
JHBIX0 - Revised NTP works	Yellowwood Properties Sdn Bhd	Feb-26	1,500
Total			3,304.0

Source: SUNCON

Earnings Summary

Profit & Loss (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	3,165.5	4,711.5	5,170.7
EBITDA	210.3	245.5	304.8	441.4	486.8
Dep. & amortisation	(23.8)	(21.0)	(22.6)	(23.8)	(25.0)
Net finance cost	(4.2)	(21.7)	(23.9)	(28.1)	(27.5)
PBT	184.1	188.6	258.2	389.4	434.4
Taxation	(45.3)	(42.8)	(62.0)	(93.5)	(104.2)
MI	(3.6)	(0.7)	(0.9)	(1.4)	(1.6)
Net profit	135.2	145.1	195.3	294.6	328.6
Core net profit	147.1	176.8	195.3	294.6	328.6
GDPS (sen)	5.5	6.0	7.0	11.0	12.0
Div Yield (%)	1.1%	1.2%	1.4%	2.2%	2.4%

Cash Flow (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
PBT	184.1	188.6	258.2	389.4	434.4
Adjustments	27.9	42.7	46.5	51.9	52.5
Changes in WC	(382.2)	(516.7)	(222.3)	(237.2)	(70.4)
Others	0.5	28.8	(0.9)	(1.4)	(1.6)
Operational cash flow	(215.0)	(299.4)	19.6	109.3	310.6
Capex	(27.1)	(18.9)	(20.0)	(20.0)	(20.0)
Others	(146.9)	442.7	(42.9)	0.0	0.0
Investment cash flow	(174.0)	423.8	(62.9)	(20.0)	(20.0)
Debt raised/(repaid)	236.5	420.9	0.0	0.0	0.0
Dividend	(90.3)	(70.9)	(89.8)	(141.1)	(153.9)
Others	(3.6)	(12.5)	(23.9)	(28.1)	(27.5)
Financial cash flow	142.7	337.4	(113.7)	(169.2)	(181.4)
Forex effect	(4.3)	1.1	0.0	0.0	0.0
Deposit	(83.9)	(86.4)	(86.4)	(86.4)	(86.4)
Net cash flow	351.4	(24.8)	(114.1)	(79.9)	109.2
Beginning cash	60.6	407.7	384.0	269.9	190.0
Ending cash	407.7	384.0	269.9	190.0	299.2
Adjustments	0.0	0.0	(0.0)	0.0	0.0
Cash	407.7	384.0	269.9	190.0	299.2

YE Dec 31	2022	2023	2024F	2025F	2026F
Order book replenishment	2584	2500	4,000	5,000	4,000

Balance Sheet (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
Fixed assets	223.1	253.1	253.1	253.1	253.1
Others	375.6	590.5	587.9	584.1	579.1
NCA	598.7	843.6	841.0	837.2	832.2
Cash and cash equivalent	407.7	384.0	269.9	190.0	299.2
Others	1,229.7	1,855.2	2,618.7	3,703.1	4,025.1
CA	1,637.4	2,239.2	2,888.6	3,893.0	4,324.3
Total assets	2,236.0	3,082.8	3,729.6	4,730.3	5,156.6
ST borrowings	172.2	438.2	438.2	438.2	438.2
Other liabilities	931.2	1,263.6	1,804.8	2,651.9	2,903.5
CL	1,103.3	1,701.8	2,243.0	3,090.2	3,341.8
Shareholders' funds	737.1	820.2	925.7	1,079.3	1,253.9
MI	83.7	71.8	71.8	71.8	71.8
LT borrowings	308.5	487.7	487.7	487.7	487.7
Other LT liabilities	3.4	1.3	1.3	1.3	1.3
Total capital	2,236.0	3,082.8	3,729.6	4,730.3	5,156.6

Ratio

YE Dec 31	2022	2023	2024F	2025F	2026F
EBITDA Margins (%)	9.8	9.2	9.6	9.4	9.4
Core EPS (sen)	11.5	13.8	15.2	23.0	25.6
EPS Growth (%)	1.6	20.2	10.5	50.8	11.5
PER (x)	43.8	36.4	33.0	21.9	19.6
GDPS (sen)	5.5	6.0	7.0	11.0	12.0
Div Yield (%)	1.1	1.2	1.4	2.2	2.4
Net cash (RMmn)	10.9	(455.6)	(569.7)	(649.6)	(540.3)
Net gearing (%)	(1.5)	55.5	61.5	60.2	43.1
ROE (%)	18.8	18.6	22.4	29.4	28.2
ROA (%)	6.6	5.5	5.7	7.0	6.6
NTA/share (sen)	57.5	64.0	72.2	84.2	97.8
P/NTA(x)	8.7	7.8	7.0	6.0	5.1

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Sector Recommendation Guideline

OVERWEIGHT: The total return of the sector, as per our coverage universe, exceeds 12%.

NEUTRAL: The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

UNDERWEIGHT: The total return of the sector, as per our coverage universe, is lower than 7%.

Stock Recommendation Guideline

BUY : Total return of the stock exceeds 12%.

HOLD : Total return of the stock is within the range of 7% to 12%.

SELL : Total return of the stock is lower than 7%.

Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build a Home, which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

★★★★★ (≥80%)	: Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.	+5% premium to target price
★★★★ (60-79%)	: Above adequate integration of ESG factors into most aspects of operations, management and future directions.	+3% premium to target price
★★★ (40-59%)	: Adequate integration of ESG factors into operations, management and future directions.	No changes to target price
★★ (20-39%)	: Have some integration of ESG factors in operations and management but are insufficient.	-3% discount to target price
★ (<20%)	: Minimal or no integration of ESG factors in operations and management.	-5% discount to target price

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As of Monday, July 22, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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